

Maryland Automobile Insurance Fund

Responses to Request for Comment

Request for Comment:

1. Current Financial Status.

Response:

When MAIF appeared before the Budget Committees in early 2003, MAIF projected that while the operating loss would decrease for 2003, the projected loss, combined with the growth in premium, would still put MAIF's ending surplus and the assessment threshold very close to one another. Thus, there was the distinct possibility that the 2003 results would cause an assessment for 2004. As I have testified over the years, MAIF is very proud of the fact that it has not required an assessment since 1989. In order to minimize the likelihood of an assessment in 2004, MAIF heightened the emphasis on internal company-wide goals for 2003 that focused on achieving the results that would preclude any assessment. *In fact, MAIF did realize an operating profit for 2003, thus, eliminating the possibility of an assessment.*

The better than anticipated operating results were due to higher earned premiums, which steadily increased during calendar year 2003. This was a result of rate increases filed in 2002 that were based on deteriorating frequency and severity trends. Frequency is the number of accidents per 100 vehicles insured, and severity is the average payments per claim. Also contributing to the improved results were the leveling off of frequency in 2003, and the implementation of additional underwriting investigative tools to allow better identification of unreported or misreported risk factors.

Even if MAIF had had an operating loss, there would still not have been an assessment since the assessment threshold level and surplus level did not converge at the rate anticipated. This was due to three factors:

- Improved operating results referred to above;
- Equity gains from MAIF investments; and
- Lower than anticipated growth in policy writings, and hence direct written premium.

Thus, the positive gap between ending surplus and the assessment threshold was larger than anticipated.

Results of the last several years have shown the importance of an adequate surplus as a major factor in stopping an assessment from occurring. For 2004, MAIF is projecting a slight operating gain and a continuation of the positive gap between the ending surplus and the assessment threshold. Therefore, MAIF does not foresee an assessment in 2005.